

Bulk charges for new appointees, revised guidance – Ofwat consultation

South East Water response

8th December 2020

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1. Introduction

This paper sets out South East Water's (SEW) response to Ofwat's consultation on its revised guidance on Bulk Charges for New Appointees, published November 2020.

Any queries in relation to this document should be sent to



2. Comments on proposed changes

General comments

South East Water broadly supports the changes Ofwat has proposed to its guidance document on bulk charges for new appointee's.

The changes around the relevant starting point and the estimation of avoided costs will increase clarity and consistency across the industry benefiting both incumbents and new appointees.

Implementing changes - timing

The best practice guidance on charges from the NAV improvement project, specified a number of key principles that are relevant when considering the implementation timetable for the revised guidance on bulk supply charges.

1. **The need for transparency and consultation on substantive changes in pricing.**
2. **Incumbents should publish their NAV bulk charges at the same time as wholesale charges, other than in exceptional circumstances**

The challenge we face is to comply with both the good practice principles and Ofwat's expectation that many of the key changes in bulk charges guidance are applied to our bulk supply charges 2021/22, published on the 13th of January 2021.

Unless an incumbents bulk supply charges are already very close to Ofwat's revised guidance, the time needed to develop, review and consult properly on the changes required will far exceed the time available.

We agree and support Ofwat's proposed changes to its guidance but need to be allowed a reasonable amount of time to develop, consult and implement the changes required. We are proposing the following:

- We will publish our bulk supply charges based on our current methodology on the 13th of January 2021.
- We will use the next 6 months to properly develop and consult on the required changes to our bulk supply charging methodology. We intend to publish our revised charges in July 2021.
- We will backdate our charges to 1st April 2021 for the existing and new NAV sites in our area, to reflect the revised charges published in July 2021.

The Working Group

We fully support the setting up of a working group to particularly focus on identifying best practice and promoting consistent approaches across the industry. We believe the key areas that this group needs to focus on are the cost estimation methodologies (bottom-up and middle-down) and how to accommodate incentives for positive environmental outcomes within incumbent's bulk supply charges.

We also highlight the need for the working group to be set up and operate in a manner that effectively manages the compliance risks relating to competition law that could arise in connection with the work of such a working group. The approach to the management of compliance risks should also extend to the implementation by companies of the recommendations of the working group especially those relating to agreed methods of charging.

In this respect, we refer to the issues of a similar nature raised by Water UK in their response to Ofwat's consultation document: "charging arrangements for new connection services for English companies: comparative analysis and consultation" in September 2020 highlighting the need for an appropriate regulatory requirement.

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